

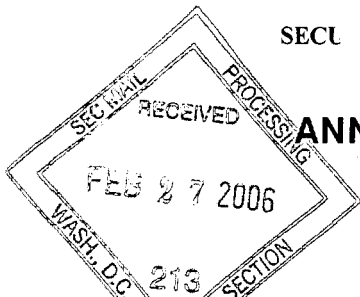


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Washington, D.C. 20549

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

AP 3/11/06

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	January 31, 2007
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SEC FILE NUMBER

~~8-0157550~~

8-41215

REPORT FOR THE PERIOD BEGINNING 01/01/05 AND ENDING 12/31/05
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATIONNAME OF BROKER-DEALER: **LOVELL INCORPORATED**

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

Two Maryland Farms, Suite 126

(No. and Street)

Brentwood,**Tennessee****37027**

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Bill Lovell**615-373-1264**

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Hill, Harper & Associates

(Name - if individual, state last, first, middle name)

761 Old Hickory Blvd, Suite 206, Brentwood, TN 37027

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.

PROCESSED

APR 26 2006

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FINANCIAL**FOR OFFICIAL USE ONLY**

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of
information contained in this form are not required to respond
unless the form displays a currently valid OMB control number.

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OATH OR AFFIRMATION

I, William C. Lovell Jr, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of LOVELL INCORPORATED, as of December 31, 20 05, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

William C. Lovell Jr
Signature
President
Title
Marcus D. Williams
Notary Public
Commission expires 07-26-2009
STATE OF TENNESSEE
NOTARY PUBLIC
WILLIAMSON COUNTY

This report ** contains (check all applicable boxes).

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

LOVELL INCORPORATED

(SEC ID. No 8-41215)

Financial Statements and Supplemental Schedules for
the Years ended December 31, 2005 and 2004, and
Opinion of Independent Certified Public Accountants, and
Supplemental Report on Internal Accounting Control
filed in accordance with Rule 17-a5(e)(3)
as a Public Document



Hill, Harper & Associates
Certified Public Accountants

**Independent Certified Public
Accountants' Report**

Terry A. Hill
Ernest R. Harper

**The Board of Directors
Lovell Incorporated:**

761 Old Hickory Boulevard
Suite 206
Brentwood, TN 37027
TEL: 615/377-3485
FAX: 615/377-3488

We have audited the accompanying statements of financial position of Lovell Incorporated as of December 31, 2005 and 2004, and the related statements of operations, changes in stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lovell Incorporated as of December 31, 2005 and 2004, and the results of its operations, changes in stockholder's equity and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 15c3-1 and rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Harper & Associates

January 20, 2006

LOVELL INCORPORATED

Statements of Financial Position

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 76,263	77,358
Commissions receivable	5,082	11,635
Receivable - clearing deposit	10,000	10,000
Total current assets	91,345	98,993
Furniture and equipment, at cost	8,989	8,989
Less accumulated depreciation	8,016	7,489
Net furniture and equipment	973	1,500
	<u>\$ 92,318</u>	<u>100,493</u>
<u>Liabilities and Stockholder's Equity</u>		
Current liabilities:		
Accounts payable	\$ 318	515
Deferred state income taxes	290	710
Accrued franchise taxes	275	275
Total current liabilities	883	1,500
Stockholder's equity:		
Common stock, no par value. Authorized 100,000 shares; issued and outstanding 12,000 shares	12,000	12,000
Additional paid-in capital	48,000	48,000
Retained earnings	31,435	38,993
Total stockholder's equity	91,435	98,993
	<u>\$ 92,318</u>	<u>100,493</u>

Commitments and contingencies (notes 5 and 6)

See accompanying notes to financial statements.

LOVELL INCORPORATED

Statements of Operations

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Commissions:		
Over the counter equity securities and other markets	\$ 99,963	100,654
Mutual funds	31,547	26,824
	<u>131,510</u>	<u>127,478</u>
Fees for investment advisory services	1,723	10,746
Interest income	6,807	6,674
Other	14,298	13,261
	<u>154,338</u>	<u>158,159</u>
Operating expenses:		
Stockholder salary	74,000	77,175
Other salary and employee costs	5,787	6,156
Professional fees	3,500	3,350
Occupancy, office and other expenses	22,788	22,056
Clearing costs	48,669	34,880
Regulatory fees, licenses, etc.	1,785	2,411
Research	802	592
Quotations	3,359	5,085
Depreciation	527	1,579
Other taxes	1,099	983
	<u>162,316</u>	<u>154,267</u>
Net earnings (loss) before income taxes	(7,978)	3,892
State income tax expense (benefit)	(420)	310
	<u>(7,558)</u>	<u>3,582</u>
Net earnings (loss)	\$ <u>(7,558)</u>	<u>3,582</u>

See accompanying notes to financial statements.

LOVELL INCORPORATED

Statements of Changes in Stockholder's Equity

Years ended December 31, 2005 and 2004

	<u>Capital Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance December 31, 2003	\$ 12,000	48,000	35,411	95,411
Net earnings 2004	-	-	3,582	3,582
Balance December 31, 2004	12,000	48,000	38,993	98,993
Net earnings 2005	-	-	(7,558)	(7,558)
Balance December 31, 2005	<u>\$ 12,000</u>	<u>48,000</u>	<u>31,435</u>	<u>91,435</u>

See accompanying notes to financial statements.

LOVELL INCORPORATED

Statements of Cash Flows

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Cash Flows from Operating Activities</u>		
Net earnings (loss)	\$ (7,558)	3,582
Adjustments to reconcile net earnings (loss) to net cash from operating activities:		
Depreciation	527	1,579
Increase in commissions receivable	6,553	(4,009)
Increase (decrease) in liabilities:		
Accounts payable	(197)	4
Deferred state income taxes	(420)	310
Accrued franchise taxes	-	(100)
Net cash from operating activities	<u>(1,095)</u>	<u>1,366</u>
<u>Cash Flows from Investing Activities</u>		
Purchase of computer system	-	(1,389)
Net cash from investing activities	<u>-</u>	<u>(1,389)</u>
Net decrease in cash and cash equivalents	(1,095)	(23)
Cash and cash equivalents at beginning of year	<u>77,358</u>	<u>77,381</u>
Cash and cash equivalents at end of year	<u>\$ 76,263</u>	<u>77,358</u>
Supplemental cash flow information		
State income taxes paid	<u>\$ -</u>	<u>-</u>

See accompanying notes to financial statements.

LOVELL INCORPORATED

Notes to Financial Statements

December 31, 2005 and 2004

(1) **Summary of Significant Accounting Policies**

Organization

The Company was organized on March 27, 1989, to perform various broker-dealer functions within the securities industry. Operations commenced in September 1989.

Revenue Recognition

The Company recognizes revenue either upon receipt, or when considered earned, if the earnings process has been substantially completed and revenues are reasonably assured of being collected. The related costs of management fees, if any, are also accrued at that time.

Depreciation

Furnishings and equipment are depreciated using the straight-line method over a life of three to seven years.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all cash on hand, deposits with financial institutions, and debt instruments with an original maturity of three months or less to be cash and cash equivalents.

Marketable Securities

Quoted market prices are used to value marketable securities. The resulting difference between cost and market (or fair value) is included in income.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the cost of compensated absences when actually paid to employees.

(2) **Income Taxes**

The Company has elected to be treated as an S Corporation for Federal income tax purposes. Accordingly, no provision has been made for Federal income taxes in the accompanying statements. The Company is subject to State income taxes. The Company has elected to be taxed on the cash basis of accounting under which income is generally taxable when received and expenses deductible when paid. The effective State rate of taxation is six percent.

Income taxes are provided in the year transactions enter into the determination of net earnings, regardless of when such transactions are recognized for tax purposes.

LOVELL INCORPORATED

Notes to Financial Statements, continued

(2) **Income Taxes, continued**

Deferred income tax liability as of December 31, 2005 and 2004 amounted to \$290 and \$710, respectively. Deferred income tax expense (benefit) amounted to (\$420) and \$310 for the years ended December 31, 2005 and 2004, respectively. The deferred tax balances arise primarily from reporting for financial statement purposes using the accrual method of accounting and using the cash basis of accounting for preparation of tax returns.

(3) **Concentrations of Assets**

The Company maintains its clearing deposit account with and receives a substantial amount of commissions revenues and clearing deposit are from a single clearing broker.

(4) **FOCUS Report, Part II A**

The accompanying financial statements have been reconciled to the FOCUS report, Part II A filed by the Company for the year ended December 31, 2005. Net capital has been reported to be \$90,462, no differences are noted in the audited financial statements. The aggregate indebtedness ratio as of December 31, 2005 is 0.009761 to one.

The FOCUS report did not include a computation for determination of reserve requirements under Rule 15c3-3 as the Company is exempt under provisions of Rule 15c-3(k)(2)A.

(5) **Commitments**

The Company has entered into a lease for office space which expires in August, 2006. The lease requires monthly payments which are subject to minor adjustments. Lease expense for the year ended December 31, 2005 and 2004 amounted to \$17,976 and \$16,934 respectively. The minimum future rent expense under this lease is \$11,677 in 2006. The Company had a sublease arrangement for a portion of its office space and received \$4,473 during 2005. The arrangement ended during 2005.

(6) **Retirement Plan Arrangement**

The Company makes discretionary contributions on the behalf of it's employees to SEP - IRA retirement plan arrangements. To be eligible to participate in the plan the employee must have attained the age of twenty one and have performed service for the Company in at least three of the five immediately preceding plan years. Further, the employee must receive compensation of \$400 or more in the plan year. No contributions were made to the plan for the years ended December 31, 2005 and 2004.



Hill, Harper & Associates
Certified Public Accountants

Independent Certified Public
Accountants' Supplemental
Report On Internal
Accounting Control

Terry A. Hill
Ernest R. Harper

The Board of Directors
Lovell Incorporated:

761 Old Hickory Boulevard
Suite 206
Brentwood, TN 37027
TEL: 615/377-3485
FAX: 615/377-3488

We have audited the financial statements of Lovell Incorporated for the year ended December 31, 2005, and have issued our report thereon dated January 20, 2006. As part of our audit, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and Rule 17a-5 of the Securities and Exchange Commission. This study and evaluation included the accounting system and the practices and procedures followed by the client in making the periodic computations of aggregate indebtedness and net capital under net capital under Rule 17a-3(a)(11). Rule 17a-5 states that the scope of the study and evaluation should be sufficient to provide reasonable assurance that any material weakness existing at the date of our examination would be disclosed. Under generally accepted auditing standards and Rule 17a-5, the purposes of such study and evaluation are to establish a basis for reliance thereon in determining the nature, timing and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to provide a basis for reporting material weaknesses in internal accounting control.

The management of Lovell Incorporated is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

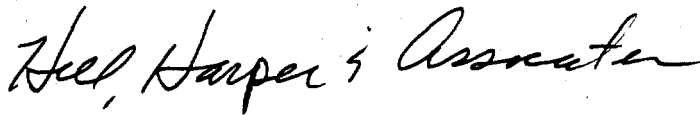
However, for the purposes of this report under Rule 17a-5, the determination of weaknesses to be reported was made without considering the practicality of corrective action by management within the framework of a cost/benefit relationship.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purposes described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Lovell Incorporated taken as a whole. The study and evaluation did however disclose the following weakness.

The only employee of the Company is the Company's owner, accordingly, it is impractical to attain a segregation of duties conducive to internal accounting control. It is not deemed practical to increase employees merely to enhance internal control.

This report is intended solely for the use of management and the Securities and Exchange Commission and should not be used for any other purpose.

A handwritten signature in cursive script that reads "Hill, Harper & Associates".

Hill, Harper & Associates
January 20, 2006

LOVELL INCORPORATED

Computation of Net Capital Under Sec. Rule 15c3-1

Year ended December 31, 2005

Net Capital:

Total stockholders' equity qualified for net capital \$ 91,435

Deductions and/or charges:

Furniture and equipment, net 973

Net capital \$ 90,462

Computation of basic net capital requirement:

Minimum net capital required \$ 50,000

Excess net capital \$ 40,462

Aggregate indebtedness:

Accounts payable \$ 318

Deferred state income taxes 290

Accrued franchise taxes 275

Aggregate indebtedness \$ 883

Ratio: Aggregate indebtedness to net capital

0.009761

Reconciliation with Company's computation (included in Part II of Form X-17-5 as of December 31, 2004):

Net capital, as reported in Company's Part II (unaudited) FOCUS report \$ 90,462

Audit adjustments -

Net capital as reported above \$ 90,462